Netherlands

CPB Netherlands Bureau for Economic Policy Analysis

Country note, July 2018

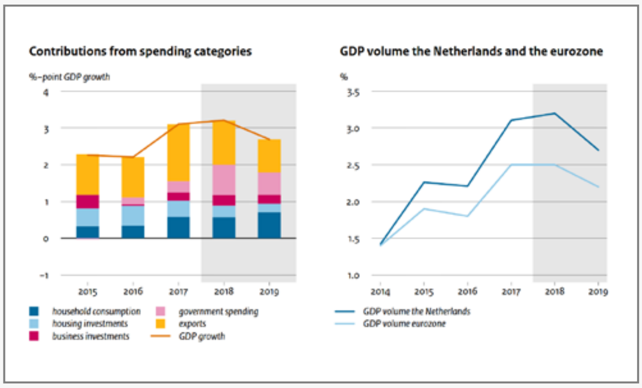
Key messages:

- **The Dutch economy is gathering steam with 3.2% economic growth in 2018 and 2.7% in 2019.**
- **Despite the economic boom, the government budgetary balance, with budget surpluses of 0.7% GDP in 2018 and 0.9% in 2019, is not improving.**
- **The Dutch Government debt will decrease to 46% of GDP in 2021.**
- **Conclusion of the Advisory Division of the Council of State based on the CPB projections: Despite economic upturn, public finances see no further improvement in 2018 and 2019.**

Macroeconomic outlook

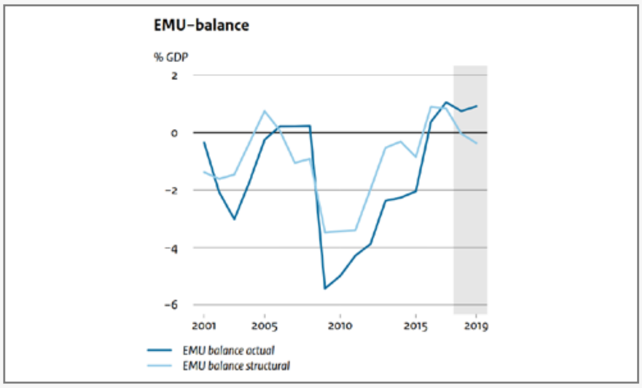
The Dutch economy is gathering steam. The economic boom is the result of a favourable international economy, low interest rates, expansive budgetary policy and a persistently strong housing market. These last two factors distinguish the Netherlands from other countries. Positive domestic dynamics between increasing employment, higher disposable income levels, higher consumption and more investments will lead to a 3.2% economic growth in 2018 and 2.7% in 2019. Over the 2017–2019 period, the Dutch economy is projected to outperform that of the Eurozone by a yearly 0.6 percentage points on average.

The Dutch labour market is tightening. In 2019, unemployment will decrease to 3.5%, its lowest point since 2001. The strong growth in employment can easily absorb the increase in labour supply. Companies more often are offering permanent labour contracts and pay higher wages to either attract or hold on to staff. Rising labour costs and a higher low VAT tariff will cause inflation to increase to 2.3% in 2019.



Short-term fiscal outlook

The government budgetary balance is not improving, despite the economic boom. Already implemented policy, higher health care expenditure and increases in spending on education and defence will cause government expenditure to increase by 3.5% in 2018 and 2.4% in 2019. The already flourishing economy will be stimulated even further by increased spending on education and defence. In 2018 and 2019, budget surpluses will be 0.7% and 0.9% of GDP, respectively, following the 1.1% GDP budget surplus of 2017. However, the structural budget balance is set to worsen in both 2018 and 2019, showing a deficit of 0.4% of GDP in 2019.



Assessment of compliance with fiscal rules

Based on the CPB forecast, the Advisory Division of the Council of States concludes that Dutch public finances are forecast to remain within the limits of the European fiscal rules in 2018 and 2019. Despite the economic upturn, however, public finances see no further improvement in 2018 and 2019. The budget surplus for both years is lower than in 2017. This is due to the expansionary budgetary policy. The underlying worsening of public finances which is the result of this policy should not be expected in times of economic upturn.

	2015	2016	2017	2018 f	2019 f
Relevant world trade volume goods and services (% per year)	3,8	3,6	4,7	4,4	4,4
Long term interest rate in the Netherlands (level in %, end of period)	0,7	0.3	0,5	0,7	0,9
Gross Domestic Product (GDP, economic growth)	2,3	2,2	3,1	3,2	2,7
Government consumption (% GDP)	-0,2	1,2	0,9	3,0	2,4
Inflation (HCIP)	0,2	0,1	1,3	1,6	2,3
Unemployed labour force (in % labour force, end of period).	6,9	6,0	4,9	3,9	3,5
General government budget balance (% GDP, end of period)	-2.1	0,4	1,1	0,7	0,9
Gross public debt (% GDP, end of period)	64,6	61,8	56,0	52,1	48,8

Sources:

CPB, Central Economic Plan 2018, CPB Policy Brief 2018/06. (link)

Advisory Division of the Council of State, Spring Report 2018, 12 April 2018 (link)

svv@cpb.nl www.cpb.nl +31611648608